

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001**

**MAIL PROCESSING NETWORK RATIONALIZATION  
SERVICE CHANGES, 2011**

**DOCKET No. N2012-1**

**SURREBUTTAL TESTIMONY OF  
  
MARC A. SMITH  
  
ON BEHALF OF THE  
  
UNITED STATES POSTAL SERVICE  
  
(USPS-SRT-2)**

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### **Associated Library References**

USPS-LR-N2012-1/100: Calculations in Support of Smith Surrebuttal Testimony

1     **I.       Purpose of Testimony**

2  
3       My testimony addresses the rebuttal testimony of Kathryn Kobe on behalf  
4     of the American Postal Workers Union, AFL-CIO.<sup>1</sup> Witness Kobe argues that the  
5     baseline used by the Postal Service in its cost savings calculations is  
6     inappropriate, and she points primarily to two reasons in support of her  
7     argument. First, she states that the baseline includes processing facilities that  
8     either were closed or for which Area Mail Processing proposals (AMPs) were  
9     approved prior to the initiation of Docket No. N2012-1, leading to a significant  
10    overstatement of savings. And second, she states that FY 2010 labor costs,  
11    which are used in the baseline, do not reflect the impact of PSEs on hourly costs  
12    and service-wide benefits. I respond to these two issues in turn below.

13  
14    **II.      Suitability of FY 2010 Mail Processing Costs as Baseline For Savings**

15  
16    As to the first issue, Witness Kobe points out that “the Postal Service  
17    reduced the number of processing facilities by 23 percent between 2009 and  
18    2011,” citing as support the Processing Facilities Fact Sheet provided in library  
19    reference USPS-LR-N2012-1/84, and goes on to state that “[t]hat reduction  
20    includes facilities that Dr. Bradley and Mr. Smith are using in their analyses.”<sup>2</sup>  
21    The implication of the 23 percent figure is presumably that the Postal Service’s  
22    baseline is much higher than it should be. However, in her response to

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<sup>1</sup> Rebuttal Testimony of Kathryn Kobe on Behalf of American Postal Workers Union, AFL-CIO, APWU-RT-1, Docket No. N2012-1 (May 3, 2012) (hereinafter “Kobe Testimony”), at Tr. 11/3697. The transcript appears to include only every other page of witness Kobe’s testimony, so further references herein to her testimony cite to the page numbers in the testimony (as revised on May 3, 2012), rather than to the page numbers in the transcript.

<sup>2</sup> Kobe Testimony, at 8

1 interrogatory USPS/APWU-RT1-1, witness Kobe admits that most of the 23  
2 percent reduction stems from reductions in customer service facilities, which  
3 were not included in the Postal Service's calculations.<sup>3</sup> Indeed, the 23 percent  
4 figure includes a reduction of 80 Customer Service Facilities, compared to a  
5 reduction of only 17 Processing & Distribution Centers, in addition to minor  
6 reductions in other types of facilities.

7 In a similar vein, witness Kobe lists, in her Table 1, facilities that  
8 underwent AMP consolidations prior to the initiation of Docket No. N2012-1.<sup>4</sup>  
9 Along with the facility names, she lists the number of MODS hours assigned to  
10 each facility in 2010 (totaling approximately 6.5 million MODS hours). She then  
11 states that "[t]hose facilities should not be included in determining the savings  
12 from the current initiative."<sup>5</sup> Viewed in light of her listing of total MODS hours in  
13 Table 1, this statement appears to imply that all of the listed MODS hours should  
14 have been excluded from the Postal Service's baseline. However, in her  
15 response to interrogatory USPS/APWU-RT1-2, witness Kobe acknowledges that  
16 only the workhours that were saved by the listed AMPs should be excluded from  
17 the baseline, and that the rest of the workhours should remain in it.<sup>6</sup> It is  
18 noteworthy that the 6.5 million MODS workhours in witness Kobe's Table 1  
19 represent approximately 2.4 percent of all workhours associated with Function 1  
20 facilities (excluding NDCs, ISCs, and RECs). So, for the sake of illustration, if the

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<sup>3</sup> Response of American Postal Workers Union, AFL-CIO, Witness Kobe to United States Postal Service Interrogatory USPS/APWU/RT1-1, at Tr. 11/3722.

<sup>4</sup> Kobe Testimony, at 9.

<sup>5</sup> Kobe Testimony, at 10.

<sup>6</sup> Response of American Postal Workers Union, AFL-CIO, Witness Kobe to United States Postal Service Interrogatory USPS/APWU/RT1-2, at Tr. 11/3723.

1 listed AMPs saved half of the listed workhours, that would mean that the Postal  
2 Service's baseline includes only an extra 1.2 percent in FY 2010 Function 1 mail  
3 processing costs, hardly a material amount.

4 Thus, in both instances above – the reference to the 23 percent reduction  
5 in facilities from 2009 to 2011, and the listing of all MODS workhours for facilities  
6 that underwent AMPs prior to the initiation of Docket No. N2012-1 – witness  
7 Kobe has cited statistics that significantly exaggerate any supposed  
8 overstatement in the Postal Service's baseline. When one looks at those  
9 statistics in their proper light, it is apparent that there is only a minor, immaterial  
10 amount of extra costs in the Postal Service's baseline. The inclusion of such  
11 amounts in the baseline simply reflects the practical reality that it is impossible to  
12 select a perfect baseline. The Postal Service has selected a reasonable baseline  
13 from which to calculate the approximate cost savings that will accrue from  
14 Network Rationalization.

15  
16 **III. Impact of PSEs on Hourly Costs and Service-Wide Benefits**

17  
18 As to her second point – namely, that FY 2010 labor costs, which are used  
19 in the baseline, do not reflect the impact of PSEs on hourly costs and service-  
20 wide benefits – witness Kobe states that the collective bargaining agreement  
21 reached by APWU and the Postal Service in 2011 provides for flexibilities, in the  
22 form of PSEs, that will lower the average clerk cost per workhour going forward.  
23 As shown below, witness Kobe's claims regarding PSEs rest on numerous  
24 inaccuracies and invalid assumptions.

1 First, witness Kobe states that the average clerk cost per hour for March  
2 2012 is already lower than the FY 2010 average clerk cost per hour used in the  
3 Postal Service's baseline, implying that costs are declining, perhaps because of  
4 the use of PSEs.<sup>7</sup> In fact, as can be seen from the National Payroll Hours  
5 Summary Reports filed by the Postal Service with the Postal Regulatory  
6 Commission, the average cost per workhour for clerks has increased between  
7 FY 2010 and FY 2012.<sup>8</sup> The FY 2012 YTD wage for March (or PP06) for clerks  
8 from the National Payroll Hours Summary Report is \$41.16, as compared to  
9 \$41.04 for FY 2010. Likewise, the March (PP06) FY 2012 average clerk cost per  
10 workhour is \$40.61, while the March (PP06) FY 2010 average clerk cost per  
11 workhour is \$40.34.

12 Second, witness Kobe overstates, in a number of ways, the impact on  
13 current wages of expanding the use of PSEs to the contract allowable cap. For  
14 example, in her Table 4, she weights Full-Time (FT) clerks and PSEs according  
15 to the number of each such employee type allowed by the collective bargaining  
16 agreement, rather than according to the employee types' respective shares of  
17 workhours.<sup>9</sup> Thus, she effectively assumes that PSEs work forty hours per week,  
18 an assumption which, besides being factually wrong, is all the more curious  
19 because it directly conflicts with an assertion she makes later in her testimony  
20 regarding the supposed ability to use PSEs for irregular, short bursts of time, to

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<sup>7</sup> Kobe Testimony, at 15.

<sup>8</sup> Witness Kobe's response to USPS/APWU-RT1-4, at Tr. 11/3725, shows that she calculated her March 2012 "weighted average" in a different manner than the calculation used to compute the FY 2010 figure.

<sup>9</sup> Kobe Testimony, at 15.

1 smooth out workload peaks.<sup>10</sup> As shown in my Attachment 1, when PSE hourly  
2 costs are weighted appropriately based on PSEs' share of workhours, there  
3 would be a 4.2 percent reduction in the hourly wage associated with raising  
4 PSEs to the 20 percent cap, as compared to the 6 percent estimate provided by  
5 witness Kobe. Given that clerk costs account for about 60 percent of LDCs 11-  
6 14 and 17-18 (costs for clerks and mail handlers), the 4.2 percent results in a  
7 reduction of 2.5 percent in the average cost per workhour for LDCs 11-14 and  
8 17-18.

9 In addition, witness Kobe overstates the impact of the future growth in  
10 PSEs by saying that the Postal Service could utilize PSEs for as much as 30  
11 percent of clerk positions in mail processing. This would assume little or no use  
12 of PSEs in Function 4. My Attachment 2 shows significant PSE usage in  
13 Function 4 – so having 30 percent PSE usage in Function 1 is not likely. Even if  
14 the number of PSEs in Function 1 mail processing were 25 percent, the overall  
15 mail processing cost per workhour would come down by 4 percent as shown in  
16 Attachment 1. So instead of a 6 to 12 percent reduction in cost per workhour,  
17 once PSEs are fully on board, it would be about a 2.5 to 4 percent reduction.

18 Witness Kobe also argues that the service-wide benefits factor of \$111.54  
19 per \$1,000 of salary and benefits for FY 2010, which I provide in Table 1 of my  
20 direct testimony (USPS-T-9, at 11), is likely too high to reflect future years' costs,

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<sup>10</sup> See Kobe Testimony, at 18-19 ("Currently, up to 20-30 percent of the mail processing employees performing clerk work (the PSEs) could be on flexible time. For example, the PSEs do not have to be called in to work at all. If PSEs are called in, it can be for as little as two hours. If, as the DPS activity winds down on a tour, there is not enough work for all the workers, the PSEs can be sent home early"). It is impossible to reconcile the sort of scheduling envisioned by Kobe here with forty hours per week. In any case, the data presented in Attachment 2 show that PSE clerks working in Function 1 operations work an average of 29 hours per week, contradicting the 10 to 15 hours per week implied by witness Kobe in the quote above.



1 because there is a downward trend in some of the components of service-wide  
2 benefits, and because of the fact that PSEs will not receive retirement benefits.  
3 The available evidence, however, shows that these factors are not having the  
4 effects that witness Kobe believes they have, and that they are offset by other  
5 factors. Despite the decline in some components of service-wide benefits,  
6 service-wide benefits per \$1,000 of salary and benefits appear stable, if not on  
7 the rise. In FY 2009, FY 2010, and FY 2011, the service-wide benefits per  
8 \$1,000 of salary and benefits were, respectively: \$106.70, \$111.54, and  
9 \$112.19.<sup>11</sup>

10 Moreover, this stability or slight rise has occurred at the same time that the  
11 Postal Service has increased its share of non-career employees. As shown in  
12 my Attachment 3, the share of non-career employees has risen from 12.5  
13 percent to 13.7 percent between FY 2009 and FY 2011. This is a short time  
14 period, so it is hard to draw extensive conclusions, and it is possible that the rise  
15 in workers compensation costs is a factor, as witness Kobe points out. Upon  
16 reflection, another aspect to consider is that while non-career employees have  
17 less service-wide benefits than career employees (they have workers  
18 compensation and unemployment compensation, as well as leave-related  
19 benefits, but not any retirement-related benefits), they also have much lower  
20 salary and benefits. So, while the numerator of the service-wide benefits factor is  
21 lower for non-career employees, so is the denominator. Given this, the FY 2010

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<sup>11</sup> For FY 2009, see Direct Testimony of Jeff Colvin on Behalf of the United States Postal Service (USPS-T-7), Docket No. N2010-1, at page 8 (Table 1). For FY 2010, see my direct testimony, USPS-T-9, at page 11 (Table 1). For FY 2011, see witness Kobe's response to USPS/APWU-RT1-6, at Tr. 11/3729.

1 service-wide benefits per \$1,000 of salary and benefits, which is \$111.54, is  
2 appropriate for determining the Network Rationalization savings.

3 In summary, just as she does in her discussion of the mail processing  
4 costs used in the Postal Service's baseline for its cost savings calculations,  
5 witness Kobe significantly exaggerates the effect of PSEs on the baseline. The  
6 Postal Service's baseline is, while not perfect, a reasonable, practical choice, and  
7 it results in a sound, approximate estimate of the cost savings that will accrue  
8 from Network Rationalization. Witness Kobe's points do not implicate that  
9 reasonableness in any material way.

### **List of Attachments**

1. Impact on Clerk and Mail Processing Average Cost Per Work Hour as PSE Use Grows
2. Average Weekly Hours Worked by PSEs by Function
3. Recent Trends in Career and Non-Career Employees for the Postal Service

## Attachment 1

### Impact on Clerk and Mail Processing Average Cost Per Work Hour as PSE Use Grows

Column No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total PSE Clerks Cost per Work Hour	All Other Clerks (Non- PSE) Cost per Work Hour	PSE Clerk Work Hour Share	Non-PSE Clerk Work Hour Share	Share of Number of PSEs Relative to Career Clerks	Weighted Average, Non-PSE & PSEs Clerks Cost per Work Hour	Percentage Change in Clerk Cost per Work Hour	Percentage Change in Mail Processing Cost per Work Hour***
March 2012 (PP06)*	\$ 17.40	\$ 42.69	8.2%	91.8%	11.0%	\$ 40.61	0.0%	0.0%
20 Percent PSE Cap**	\$ 17.40	\$ 42.69	15.0%	85.0%	20.0%	\$ 38.91	-4.2%	-2.5%
25 Percent PSE Cap**	\$ 17.40	\$ 42.69	18.7%	81.3%	25.0%	\$ 37.96	-6.5%	-3.9%

\*Columns 1-4 are from Page 2 of this Attachment. Column 5 is from Witness Kobe, APWU-RT-1, Table 3.

\*\*Columns 1-2 are the cost per work hour from March 2012 (PP06). Column 3 is the estimated share of work hours for PSEs consistent with the Relative Number of PSEs specified in column 5.

\*\*\*Column 8 is based on the taking Clerks as 60 percent of Mail Processing Function 1 Costs and holding constant the cost per work hour for mail handlers. See tab "Clerks Share of F1 Proc Cost" for the calculation of the clerks share.

## Attachment 1

Calculation of Clerk Costs per Work Hour and Share of Work Hours  
for PSE and All Other (Non-PSE) Clerks for March, 2012 or PP06 for FY2012

	Total Clerks*	PSE Clerks, CAG A-J**	PSE Clerks, CAG K-L***	Total PSE Clerks	All Other Clerks (Non- PSE)	Total Clerks
Cost per Work Hour	\$ 40.61	\$ 17.40	\$ 17.22	\$ 17.40	\$ 42.69	
Total Work Hours	10,489,855	861,779	1,115	862,894	9,626,961	10,489,855
Total Salary and Benefits	425,995,822	14,993,279	19,203	15,012,482	410,983,340	425,995,822
Work Hour Shares				8.2%	91.8%	100.0%

Notes:

\*National Payroll Hours Summary Report, PP06 FY 2012, Clerks/Post Office Consolidated, Current Period, p. 29, Line 43.

\*\*National Payroll Hours Summary Report, PP06 FY 2012, Clerks/PSE CAG A-J, Current Period, p. 17, Line 43.

\*\*\*National Payroll Hours Summary Report, PP06 FY 2012, Clerks/PSE CAG K-L, Current Period, p. 24, Line 43.

## Attachment 2

### Average Weekly Hours Worked by PSEs by Function

Last 6 weeks (April 28 - June 8)

FUNC	PSEs	HOURS	Avg Wkly Hours
1	9,326	1,617,180	29
4	7,447	1,099,043	25
Total	16,773	2,716,223	27

Data Source: Time and Attendance Collection System (TACS)

#### Notes:

Data Set does not include PSEs / workhours for any working in offices without EBR (Electronic Badge Reader). Estimated at appx. 4,000 in "time card offices" Function 4.

For the analysis period, there was 1 holiday (May 28).

PSE counts reflected above will include employees who have since left employment and if work occurred in both function by an employee, they are counted in both. (minimal occurrences).

### **Attachment 3**

#### **Recent Trends in Career and Non-Career Employees for the Postal Service**

	2011	2010	2009
Total Career Employees	557,251	583,908	623,128
Total Non-career Employees	88,699	87,779	88,954
Total Employees	645,950	671,687	712,082
Percentage of Non-career Employees As A Share of Total Employees	13.7%	13.1%	12.5%

Source: FY2011 Annual Report to Congress and Comprehensive Statement of Postal Operations, page 24.